SENATE BUDGET AND APPROPRIATIONS COMMITTEE

STATEMENT TO

SENATE COMMITTEE SUBSTITUTE FOR
SENATE, Nos. 1962, 1964, 1965 1969 and 2077

STATE OF NEW JERSEY

DATED: JUNE 19 , 2008

The Senate Budget and Appropriations Committee reports favorably Senate Committee Substitute for Bill Nos. 1962, 1964, 1965, 1969 and 2077.

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This bill, entitled "The Public Employee Pension and Benefits Reform Act of 2008," implements an additional six major recommendations made in the report of the Joint Legislative Committee on Public Employee Benefits Reform issued during the New Jersey Legislature's 2006 Special Session.

This bill prohibits pension system credit purchased for out-of-State service from being creditable towards post-retirement health care benefits. Service credit in the Teachers' Pension and Annuity Fund (TPAF) and the Public Employees' Retirement System (PERS), established through purchase on or after the bill's effective date by a current or future member for prior employment with another state or the federal government, or for service with a bi-state or multi-state agency in the case of a member of PERS, cannot be used to meet the requirements for employer-paid health care benefits in retirement.

This bill also provides that the State as an employer, or an independent State authority, commission, board or instrumentality, may allow any employee who is eligible for other health care coverage that is not under the State Health Benefits Program (SHBP) to waive the SHBP coverage to which the employee is entitled by virtue of employment with the State or other State entity. In consideration of filing a waiver, the State or other employer may pay the employee annually an amount established at its sole discretion and not in excess of 50% of the amount saved because of the employee's waiver of coverage.

Current law permits public employers other than the State participating in the SHBP to offer a waiver incentive. Under the bill, the arrangement after a waiver is the same for both State and local employees. An employee who waives coverage will be permitted to resume coverage immediately, if the employee ceases to have other health care coverage, but will be required to repay, on a pro rata basis, any amount received from the employer which represents an advance payment for a period of time during which coverage is resumed. The decision of an employer to allow its employees to waive SHBP coverage and the amount of consideration to be paid is not subject to the collective bargaining process.

This bill raises the retirement age for a benefit without any reduction, from age 60 to age 62, for members of the TPAF and the PERS who became a member of one system or the other on or after the effective date of this bill.

Under current law, members of either system who became members before July 1, 2007 may retire at age 55 years with 25 years of service or at age 60 with any number of years of service without a reduction in the amount of retirement allowance the members' receive. There is a reduction in such an allowance if the member is under 55 with 25 years of service. Under current law, there is also a reduction in an allowance for members of either system who became members on or after July 1, 2007 and who retire between age 55 and 60 years with 25 or more years of service. If a person became a member on or after the effective date of this bill, that person must be at least 62 years of age in order to retire without a reduction in his or her retirement allowance.

This bill changes the eligibility criteria for becoming a member of the TPAF and of the PERS. Currently, the eligibility criteria are a minimum annual compensation of $500 for TPAF and $1,500 for PERS. Those same criteria will continue to apply to a person who is a TPAF or PERS member on the effective date of the bill and continuously thereafter.

The bill provides that, after its effective date, a person who was not a member of either retirement system on that effective date, or who was a member on that date but not continuously thereafter, and who is in public employment, office or position covered by TPAF or PERS for which the annual salary or remuneration is certified by the public entity at $7,500 or more, will be eligible to become a member of the relevant retirement system. The $7,500 minimum annual salary or remuneration amount will be adjusted annually by the Director of the Division of Pensions and Benefits, by regulation, in accordance with changes in the Consumer Price Index but by no more than 4 percent. "Consumer Price Index" means the average of the annual increase, expressed as a percentage, in the consumer price index for all urban consumers in the New York City and Philadelphia metropolitan statistical areas during the preceding calendar year as reported by the United States Department of Labor.

Under the bill, persons ineligible for TPAF or PERS based on the new criteria may be eligible for enrollment in the Defined Contribution Retirement Program (DCRP).

In addition, the bill provides that an adjunct faculty member or part-time instructor at a public institution of higher education in the

State whose employment agreement begins after that effective date will be eligible for membership in the Alternate Benefit Program (ABP), instead of PERS. The bill also provides that an appeal by any person who is denied membership in TPAF or PERS will be transmitted as a contested case to the Office of Administrative Law for an adjudicatory proceeding.

The bill puts into statute the current eligibility criteria for SHBP coverage, now contained in regulation, for an employee of an employer other than the State, who must work the number of hours per week as prescribed by the governing body of the participating employer, which number of hours worked will be considered full-time, determined by resolution and not less than 20.

The bill provides that any person who knowingly obtains SHBP coverage for an ineligible person, himself or another, will be guilty of a crime of the fourth degree, punishable by imprisonment for up to 18 months or a fine of up to $10,000, or both. The bill requires the SHBP to establish an audit program to ensure that only eligible employees and retirees, and their dependents, are receiving health care coverage under the program.

Finally, this bill would lower, from 13 to 12, the number of paid holidays for all State government public employees. Under the bill, the legal holiday known as Lincoln's Birthday would no longer be considered a public holiday for the purposes of conducting State government business. On that day, State government offices are to remain open. In honor of President Lincoln and all Presidents, the bill provides for the third Monday in February, known as Washington's Birthday, to be known and celebrated as Presidents Day for the purpose of a paid holiday for State employees. This provision of the bill will take effect in the calendar year after the collective bargaining agreements or contracts covering a majority of the Executive Branch employees expire.

As reported by the committee, the substitute is identical to Assembly Bill No. 2818.

FISCAL IMPACT

On the provisions of the substitute bill concerning the purchase of out-of-State service credit**,** according to the Division of Pensions and Benefits, data is not available to estimate savings. However, if this change is enacted, it will reduce the number of employees qualifying for State-paid post retirement medical benefits, which will result in savings.

On the provisions of the bill concerning the increase in retirement age, from 60 to 62, the Division of Pensions and Benefits estimates the additional savings to the State and local governments to be $600,000 and $820,000 respectively beginning in 2011. The OLS notes that the cost savings are not realized until FY 2011. This is because if the bill becomes effective as of July 1, 2008, the positions that will be affected by the bill will not be reflected in the valuation report until July 1, 2009. There is a two year lag between when the valuation report is generated and when the State contributions become due.

On the provisions of the bill concerning paid holidays for State employees, Department of Treasury anticipates that this bill would reduce State overtime costs by about $1.4 million annually once its provisions become effective. There may be a modest expenditure increase related to operating public offices for an additional day.

On the provisions of the bill concerning membership eligibility for PERS and TPAF according to the Division of Pensions and Benefits, sufficient data is not available to project savings accurately.

On the provisions of the bill with regard to the requirement that SHBP conduct an annual audit to identify ineligible participants in the program, no data is available at this time to estimate any additional cost to the Division of Pension and Benefits for the annual audit or the savings that maybe realized as a result thereof. This bill may result in savings over time if ineligible SHBP participants are identified and removed from the system.